

Message Text

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APPROVED BY EB/IFD/OMA:RJRYAN

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TO AMEMBASSY BUDAPEST PRIORITY

C O N F I D E N T I A L STATE 160877

LIMDIS

E.O. 11652: GDS

TAGS: EFIN, HU

SUBJECT: WORLD WAR I HUNGARIAN DEBT

REFS: A) BUDAPEST 892 B) BUDAPEST 934 C) STATE 78194

D) STATE 151528 E) BUDAPEST 2052

1. DEPT. AGREES THAT RESOLUTION OF THIS ISSUE IS
IMPORTANT IN MAINTAINING MOMENTUM OF IMPROVED U.S.-
HUNGARIAN RELATIONS. HOWEVER, WHILE AMOUNT OF DEBT WITH
HUNGARY IS SMALL, ANY SETTLEMENT COULD HAVE RAMIFICATIONS
FAR BEYOND THIS PARTICULAR CASE, AND WE THEREFORE ARE
INCLINED TO DELAY DECISION UNTIL WE HAVE HAD A CHANCE TO
STUDY THESE RAMIFICATIONS THOROUGHLY.

2. OUR INITIAL RESEARCH ON THIS ISSUE INDICATES
THAT IN LIGHT OF CONGRESSIONAL ACTION IN THE 1924 FUNDING
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OF THIS DEBT, THE 1932 HOOVER MORATORIUM, AND THE 1938

PROPOSED RESCHEDULING, THE EXECUTIVE BRANCH WOULD HAVE TO SEEK LEGISLATIVE AUTHORITY TO NEGOTIATE A SETTLEMENT AT LESS THAN FULL VALUE. DEPT. IS RELUCTANT TO SEEK THIS AUTHORITY SINCE IT WOULD INEVITABLY RAISE QUESTIONS RELATING TO TERMS AND PROSPECTS FOR SETTLING THE OTHER 18 BILLION DOLS IN WORLD WAR I DEBT AND COULD LEAD TO LEGISLATION IN THIS AREA. THIS COULD ENCUMBER OUR

ECONOMIC AND POLITICAL RELATIONS WITH SEVERAL MAJOR COUNTRIES OF EUROPE.

3. CONVERSELY, SETTLEMENT AT FULL VALUE WOULD PROVIDE ANOTHER PRECEDENT THAT COULD PREJUDICE ANY FUTURE PROSPECT TO ARRIVE AT A MULTILATERAL SETTLEMENT OF ALL WORLD WAR I DEBT AT LESS THAN FULL VALUE. WE BELIEVE THIS RISK IS OF A LESSER MAGNITUDE THAN THE FORMER.

4. REGARDING SPECIFIC QUESTIONS RAISED REF E: A) PAYMENTS ON THE 1917 SALE OF FLOUR BY THE UNITED STATES GRAIN CORPORATION IS NOT THE ONLY DEBT TO THE USG IN ARREARS. NEW INFORMATION FROM TREASURY NOW INDICATES THAT PAYMENTS

ON 1946 DEBT FROM SALES OF OVERSEAS SURPLUSES WERE IN ARREARS AS OF JUNE 30, 1975 BY 247,663.80 DOLS, DOWN FROM AN ARREARS LEVEL OF 700,000 DOLS IN JUNE 1974.

HOWEVER, TREASURY BELIEVES SOME PAYMENTS MAY NOT HAVE YET BEEN RECORDED AND HAVE PROMISED A MORE DEFINITE ANSWER LATER IN JULY. B) A 100 PERCENT SETTLEMENT OF 1917 FLOUR DEBT WOULD REQUIRE PAYMENT OF 3,979,475.61 TO ELIMINATE ARREARAGES AS OF DECEMBER 31, 1974. IN ADDI-

TION, ANNUAL PAYMENTS THROUGH 1986 WOULD HAVE TO BE RESUMED ON THE UNMATURED PRINCIPAL OF 719,355.00 DOLS. C) IF SETTLEMENT OF THE 1946 AND 1917 DEBT ARREARAGES IS REACHED, THE JOHNSON ACT WOULD NOT APPLY TO HUNGARY.

5. WE NOW THINK IT PREFERABLE TO WAIT UNTIL LEGAL

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RESEARCH IS COMPLETED AND FINAL DECISION IS MADE ON WHETHER TO SEEK CONGRESSIONAL AUTHORITY TO NEGOTIATE A LESS THAN FULL VALUE SETTLEMENT. WITHOUT THIS DECISION, WE WOULD BE UNABLE TO WORK OUT A NEGOTIATING STRATEGY.

6. DEPT. HAS FURTHER MEETING WITH TREASURY SCHEDULED FOR WEEK OF JULY 7. WE HOPE TO HAVE RESOLUTION OF LEGAL ISSUES POSED IN PARA 2, 3 AND 4(C) AFTER THAT TIME. KISSINGER

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